

Message Text

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PAGE 01 TOKYO 11729 01 OF 02 040924Z

10

ACTION EA-09

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TO SECSTATE WASHDC 1348

TREASURY DEPARTMENT WASHDC PRIORITY

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMCONSUL HONG KONG

USMISSION OECD PARIS

UNCLAS SECTION 1 OF 2 TOKYO 11729

PASS FEDERAL RESERVE, LABOR AND EXIMBANK

E.O. 11652: N/A

TAGS: EFIN, JA

SUBJECT: FINANCIAL AND ECONOMIC DEVELOPMENTS - WEEK OF JULY
29 - AUG 4

1. SUMMARY: STATISTICAL INDICATORS FOR JULY ARE ENCOURAGING
AS AUTO REGISTRATIONS REMAIN STRONG AND CONSUMER PRICES ROSE
ONLY FRACTIONALLY. ON THE OTHER HAND, NEW CONSTRUCTIONORDERS
DECLINED IN JUNE AND IN THE SECOND QUARTER DESPITE GOJ PUMP
PRIMING EFFORTS. HOUSEHOLD EXPENDITURES WERE LOWER IN MAY,
BUT DISPOSABLE INCOME DROPPED EVEN MORE, THEREBY REDUCING THE
AVERAGE PROPENSITY TO SAVE TO ALMOST 20 PERCENT. BOND YIELDS
DECLINED SLIGHTLY IN JULY AND OFFICIAL RESERVES REACHED ALMOST
\$16 BIL AT MONTH-END. END SUMMARY.

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PAGE 02 TOKYO 11729 01 OF 02 040924Z

2. NEW CONSTRUCTIONORDERS SOFTENED IN JUNE BUT REMAINED

WELL ABOVE LOW LEVEL IN APRIL. CONSTRUCTION ORDERS PLACED BY GOVT AND PUBLIC AGENCIES (JEI 324, S.A.) DROPPED BY 10.5 PERCENT IN JUNE AFTER RECORDING HUGE 51.5 PERCENT INCREASE IN MAY. CONSTRUCTION ORDERS PLACED BY PRIVATE FIRMS (JEI 325, S.A.), ON THE OTHER HAND, CONTINUED TO RISE IN JUNE, BUT LESS RAPIDLY THAN IN PRIOR MONTH. DURING SECOND QUARTER OF 1976 CONSTRUCTION ORDERS PLACED BY PUBLIC AND PRIVATE SECTORS BOTH DECLINED BELOW FIRST QUARTER LEVELS. PUBLIC CONSTRUCTION ORDERS CONTINUED FALLING THROUGHOUT ENTIRE FIRST SIX MONTHS OF 1976, WHEREAS PRIVATE CONSTRUCTION ORDERS RECORDED HEALTH RECOVERY IN FIRST QUARTER BUT DECLINED SHARPLY IN SECOND QUARTER.

NEW CONSTRUCTION ORDERS, SEASONALLY ADJUSTED
(BIL YEN; PCT CHANGE FROM PRIOR PERIOD IN PAREN)

	GOVT/PUBLIC	PRIVATE
JAN-MAR AVG	205.9 (MIN 5.5)	255.2 (11.0)
APR-JUNE AVG	197.8 (MIN 4.0)	218.6 (MIN 14.4)
APR	153.3 (MIN 30.4)	212.6 (MIN 22.0)
MAY (REVISED)	232.2 (51.5)	219.8 (3.4)
JUNE	207.8 (MIN 10.5)	223.3 (1.6)

3. DESPITE DIET DELAY IN PASSING THE JFY 1976 BUDGET BILL, PUBLIC WORKS CONTRACT AWARDS PROGRESSED MORE SMOOTHLY THAN HAD BEEN ANTICIPATED. PUBLIC WORKS CONTRACT AWARDS DURING APR-JUNE QUARTER THIS YEAR REACHED NEARLY 45 PERCENT OF GOJ BUDGET EXPENDITURES ALLOCATED FOR PUBLIC WORKS DURING ENTIRE FISCAL YEAR STARTED IN APRIL THIS YEAR. THAT PERCENT WAS AS HIGH AS IN SAME QUARTER A YEAR AGO WHEN GOJ WAS ACCELERATING PUBLIC WORKS CONTRACT AWARDS IN EARLY PART OF JFY IN ITS ATTEMPTS TO BOOST THE DOMESTIC RECOVERY. QUARTERLY ALLOCATION OF PUBLIC WORKS CONTRACT AWARDS IS CONSIDERED AS ONE OF THE BAROMETERS OF GOJ FISCAL POLICY. IN THE YEARS OF BUSINESS STIMULATION (1971, 1972 AND 1975) PUBLIC WORKS CONTRACTS AWARDED DURING FIRST THREE MONTHS OF THE FISCAL YEAR EXCEEDED 40 PERCENT OF THE YEAR'S ENTIRE BUDGET WHEREAS IN TIGHT CREDIT YEARS (1973 AND 1974) THEY DROPPED TO THE 30 PERCENT LEVEL. HOWEVER, THIS YEAR GOJ DID NOT INTENTIONALLY ACCELERATE PUBLIC WORKS CONTRACT AWARDS. BUDGET EXPENDITURES FOR PUBLIC WORKS TOTALED UNCLASSIFIED

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PAGE 03 TOKYO 11729 01 OF 02 040924Z

8,734 BIL (APPROXIMATELY \$30 BIL) IN JFY 1976, UP 12.1 PERCENT OVER INITIAL BUDGET EXPENDITURES IN JFY 1975 ENDED IN MARCH THIS YEAR. THE CONSTRUCTION MINISTRY CONTROLS ROUGHLY HALF OF THE GOJ PUBLIC WORKS BUDGET AND IN THE FIRST THREE MONTHS HAS ALREADY AWARDED NEARLY HALF OF THE ENTIRE AMOUNT FOR THIS FISCAL YEAR, THEREBY RECORDING THE HIGHEST ACCELERATION EVER. CONSEQUENTLY, THE YEN VALUE OF GOJ PUBLIC WORKS CONTRACT AWARDS DURING APRIL-JUNE QUARTER THIS YEAR INCREASED

BY 10 PERCENT OVER SAME QUARTER A YEAR AGO, OR BY 15 PERCENT ON PROJECTS SUPERVISED BY THE MINISTRY OF CONSTRUCTION. NEVERTHELESS NW GOVT/PUBLIC CONSTRUCTION ORDERS (JEI 324) DURING THE APR-JUNE QUARTER WERE 7 PERCENT LOWER THAN A YEAR AGO, AND DURING FIRST SIX MONTHS OF 1976 PUBLIC CONSTRUCTION ORDERS AS RECORDED IN JEI 324 DROPPED BY MORE THAN 5 PERCENT FROM SAME PERIOD A YEAR AGO. THE CONSTRUCTION MINISTRY EXPLAINED THAT JEI 324 ONLY COVERS CONSTRUCTION WORK ORDERS RECEIVED BY 43 MAJOR COMPANIES. ACCOUNTING FOR ABOUT ONE- QUARTER OF THE TOTAL DOMESTIC MARKET. GOJ HAS ENCOURAGED MINISTRIES TO PLACE PUBLIC WORKS CONTRACTS WITH SMALL OR MEDIUM-SIZED ENTERPRISES, WHICH HAVE SUFFERED MORE SERIOUSLY FROM THE PROLONGED RECESSION. DUE TO DELAY OF DIET PASSAGE OF BILLS RAISING JNR FARES AND TELEPHONE CHARGES, CONSTRUCTION PROJECTS RELATED TO THESE CORPORATIONS ARE LIKELY TO BE SUBSTANTIALLY REDUCED DURING THE REMAINDER OF THIS FISCAL YEAR. VARIOUS MINISTRIES REPORTEDLY URGED MOF TO ALLOW ADDITIONAL FISCAL SPENDING DURING LATTER HALF OF THIS YEAR TO MAINTAIN THE CURRENT RATE OF BUSINESS RECOVERY. MOF, HOWEVER, REJECTED THESE REQUESTS, SAYING THAT THE DOMESTIC ECONOMY WILL MAINTAIN THE CURRENT RECOVERY PACE WITHOUT AN ADDITIONAL FISCAL STIMULUS. SIGNS OF RENEWED INFLATIONARY PRESSURES ARE A FURTHER REASON FOR REJECTING A SUPPLEMENTARY BUDGET FOR PUBLIC WORKS SPENDING.

4. NEW PASSENGER CAR REGISTRATIONS CONTINUED AT A HIGH LEVEL IN JULY, AND IN FACT WERE SOMEWHAT LARGER THAN IN JUNE, ON SEASONALLY ADJUSTED BASIS. THE RATE OF INCREASE, HOWEVER, SLOWED DOWN RAPIDLY IN JULY TO ONLY 2.5 PERCENT AS COMPARED TO NEARLY 30 PERCENT MONTHLY GAIN RECORDED IN JUNE. ON A YEAR-OVER-YEAR COMPARISON, NEW CAR REGISTRATIONS IN JULY WERE MORE THAN 5 PERCENT BELOW JULY 1975

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PAGE 04 TOKYO 11729 01 OF 02 040924Z

ALTHOUGH REGISTRATIONS OF MINICARS ALONE INCREASED REMARKABLY BY NEARLY 60 PERCENT OVER THE LEVEL OF YEAR EARLIER.

	SEASONALLY UNADJUSTED (1,000 CARS)	PERCENT CHANGE FROM ADJUSTED (1,000 CARS) PRIOR MONTH
MAY	157.3	173.0 MIN 18.0
JUNE	221.9	225.0 29.3
JULY	283.4	230.8 2.5

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PAGE 01 TOKYO 11729 02 OF 02 040937Z

21

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UNCLAS SECTION 2 OF 2 TOKYO 11729

5. THE AVERAGE PROPENSITY TO SAVE FELL SHARPLY IN MAY AND RECORDED THE FOURTH CONSECUTIVE MONTH OF DECLINE. THE AVERAGE PROPENSITY TO SAVE (JEI 363, S.A.) INCREASED IN FIRST QUARTER OF 1976 (QUARTERLY AVERAGE OF 23.6 PERCENT) FROM FOURTH QUARTER OF 1975 (21.8 PERCENT). NEVERTHELESS, PERSONAL CONSUMPTION IN PRELIMINARY GNP STATISTICS REGISTERED A HEALTHY RECOVERY DURING FIRST QUARTER OF THIS YEAR (UP 3.7 PERCENT IN REAL TERMS) AS COMPARED TO ZERO GROWTH IN PRECEDING QUARTER. DURING FOURTH QUARTER OF 1975 LIVING EXPENDITURES OF HOUSEHOLDS (JEI355, S.A.) ROSE ONLY MODESTLY (2.8 PERCENT) BUT DISPOSABLE INCOME (JEI 361, S.A.) REMAINED UNCHANGED FROM PRIOR QUARTER, THUS REDUCING THE RATIO OF SAVINGS TO DISPOSABLE INCOME. DURING THE FIRST QUARTER OF THIS YEAR, ON THE OTHER HAND, LIVING EXPENDITURES INCREASED MORE RAPIDLY (4.2 PERCENT) THAN IN FOURTH QUARTER OF 1975. NEVERTHRLESS, THE AVERAGE PROENSITY TO SAVE WAS RAISED DUE TO LARGER INCREASE IN DISPOSABLE INCOME (6.6 PERCENT) DURING THE UNCLASSIFIED

UNCLASSIFIED

PAGE 02 TOKYO 11729 02 OF 02 040937Z

SAME QUARTER. IN MAY, THE SITUATION WAS SIMILAR TO THE FOURTH QUARTER OF 1975. THE AVERAGE PROPENSITY TO SAVE FELL BY 1.7 PERCENTAGE POINTS FROM APRIL TO 20.6 PERCENT. NEVERTHELESS, THE MAY DECLINE WAS PRIMARILY THE RESULT OF A SHARP REDUCTION IN DISPOSABLE INCOME (DOWN 4.5 PERCENT). THAT DROP IN DISPOSABLE INCOME WAS DUE TO INCREASES IN AUTO-RELATED AND FIXED ASSETS TAX RATES AS WELL AS RESTRAINED WAGE GAINS AT THIS SPRING'S WAGE OFFENSIVE. HOUSEHOLD EXPENDITURE ALSO DROPPED IN MAY (2.5 PERCENT), BUT BY LESS THAN DISPOSABLE INCOME

AVERAGE PROPENSITY TO SAVE, S.A.

PERCENT OF DISPOSABLE INCOME

1975: OCT-DEC AVG	21.8
1976: JAN-MAR AVG	23.6
MAR	22.9
APR	22.3
MAY	20.6

6. CONSUMER PRICES IN TOKYO ROSE LESS RAPIDLY IN JULY THAN IN THE PRIOR MONTH YET BOJ GOV MORINAGA STRONGLY URGED CORPORATIONS TO REFRAIN FROM RAISING PRICES BECAUSE HE SEES SIGNS OF RENEWED INFLATION. MONTHLY INCREASE IN CPI FOR TOKYO AREA (JEI 422, N.S.A.) WAS 0.2 PERCENT IN JULY, COMPARED TO 0.6 PERCENT RISE IN PRIOR MONTH. (THE JUNE TOKYO CPI WAS REVISED DOWNWARD FROM PRELIMINARY ESTIMATE OF A 0.9 PERCENT RISE.) PRICES FOR FRUITS, FISH, CONSTRUCTION MATERIALS, AND GASOLINE ROSE SHARPLY IN JULY, BUT WERE PARTLY OFFSET BY DECLINES IN VEGETABLE AND CLOTHING PRICES. ON YEAR-OVER-YEAR COMPARISON, JULY CPI WAS UP 9.4 PERCENT, RECORDING THIRD STRAIGHT MONTH OF LESS THAN 10 PERCENT YEAR-OVER-YEAR INCREASE. SEVERAL GOVT-CONTROLLED PRICES ARE SCHEDULED TO BE RAISED THIS FALL, SUCH AS THE RETAIL RICE PRICE, RAILROAD FARES, TELEPHONE CHARGE, AND ELECTRIC POWER RATES. EPA OFFICIALS ARE ALSO CONCERNED ABOUT THE LIKELY IMPACT ON THE CPI AFTER SEPTEMBER OF RECENT SHARP INCREASES IN PRICES AT THE WHOLESALE LEVEL AS MEASURED BY THE WPI. LOCAL PRESS REPORTED THAT SUCH AN IMPACT HAS ALREADY APPEARED, SINCE THE JULY CPI INCREASE, EXCLUDING SEASONAL ITEMS, CAN BE PRIMARILY ATTRIBUTED TO COMMODITIES THAT HAVE RECORDED RAPID PRICE INCREASES AT THE WHOLESALE

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PAGE 03 TOKYO 11729 02 OF 02 040937Z

LEVEL, SUCH AS LPG, WOODEN CONSTRUCTION MATERIALS, OR CARPETS.

TOKYO CPI INDEX (1970-100, N.S.A.) PERCENT CHANGE

FROM PRIOR MONTH

MAY	186.5	MIN 0.1
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JUNE (REVISED)	187.6	0.6
JULY	188.0	0.2

7. BOND YIELDS DECLINED IN JULY IN CONTRAST TO CONSISTENT RISE REGISTERED THROUGHOUT EARLY PART OF THIS YEAR. CORPORATE BOND YIELD DROPPED IN JULY AFTER RECORDING FIFTH CONSECUTIVE MONTH OF INCREASE. YIELDS ON TELEPHONE AND TELEGRAPH BONDS SHOWED SIMILAR MOVEMENT ALTHOUGH FLUCTUATING MORE SHARPLY THAN YIELDS ON TWO OTHER BONDS. AT END OF JULY 1976, YIELDS WERE BELOW ALL OF LAST YEAR, AND FOR EXAMPLE, 0.3 PERCENTAGE POINTS BELOW THOSE PREVAILING AT THE END OF JULY 1975. CITY BANKS HAVE BEEN MAJOR SUPPLIER OF BONDS TO THE SECONDARY MARKET SINCE THE BEGINNING OF THIS YEAR AND HAVE THUS CONTRIBUTED IN PART TO RISING BOND YIELDS IN EARLY PART OF THIS YEAR. HOWEVER, AFTER MIDDLE OF JUNE, BOND SALES BY CITY BANKS HAVE EASED RAPIDLY. ON THE OTHER HAND, MAJOR BUYERS OF BONDS, NAMELY AGRICULTURAL AND SMALL-SIZED FINANCIAL INSTITUTIONS, INCREASINGLY SOUGHT OPPORTUNITIES TO INVEST IN BONDS, SINCE THE CREDIT EASE HAS LEFT THEM WITH SURPLUS FUNDS.

BOND YIELDS, YIELDS TO MATURITY
(YIELDS IN PERCENT; AT MONTH-END)

	GOJ BONDS	TELEPHONE AND TELEGRAPH BONDS	CORPORATE BONDS
MAY	8,773	9,115	8.919
JUNE	8,774	9,198	8.834
JULY	8,758	9.095	8.889

8. JAPAN'S OFFICIAL RESERVES ROSE IN JULY BY \$543 MIL, MORE RAPIDLY THAN IN JUNE, AND REACHED \$15,940 MIL AT END OF MONTH. AS RESULT, JAPAN'S OFFICIAL RESERVES INCREASED FOR THE SEVENTH CONSECUTIVE MONTHS BY A TOTAL OF MORE THAN \$3,100 MIL. MOF OFFICIAL ATTRIBUTED THE INCREASE TO JAPAN'S STRONG B/P IN JULY. MERCHANDISE TRADE BALANCE APPARENTLY REMAINED IN SURPLUS IN JULY WHILE

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PAGE 04 TOKYO 11729 02 OF 02 040937Z

LONG-TERM CAPITAL SWUNG TO NET INFLOW FROM NET OUTFLOW IN PRIOR MONTH, ACCORDING TO MOF. FOREIGN BUYING OF JAPANESE SECURITIES REMAINED BULLISH IN JULY AND ESTIMATED TO HAVE RECORDED LARGER NET FOREIGN BUYING (\$110 MIL) THAN IN PRIOR MONTH (\$73 MIL). NEW BOND ISSUES ABROAD BY JAPANESE ENTERPRISES WERE VERY HEAVY IN JULY AND PROBABLY BROUGHT IN \$260 MIL, \$80 MIL MORE THAN IN PRIOR MONTH. LOCAL NEWSPAPERS, HOWEVER, REPORTED THE JULY INCREASE IN FOREIGN EXCHANGE RESERVES WAS PRIMARILY ATTRIBUTED TO BOJ DOLLAR INTERVENTION (ESTIMATED AT APPROXIMATELY \$300 TO \$400 MIL) TO CALM DOWN SHARP UPWARD PRESSURES ON YEN AGAINST DOLLAR.

9. VARIOUS LABOR STATISTICS USUALLY TRANSMITTED IN THESE
WEEKLY REPORTS WILL BE DELAYED THIS MONTH AS THE STATISTICAL
SERIES ARE BEINGC CHANGED TO A 1975 BASE YEAR AND SEASONAL
ADJUSTMENTS ARE BEING REVISED.
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